

**MINUTES OF THE
NATURAL RESOURCES APPROPRIATIONS SUBCOMMITTEE
January 28, 2008
Room W130, West Office, Building, State Capitol Complex**

MEMBERS PRESENT: Sen. Dennis Stowell, Co-Chair
Rep. Ben Ferry, Co-Chair
Rep. Roger Barrus
Rep. Jack Draxler
Rep. Carl Duckworth
Rep. Kerry W. Gibson
Rep. James R. Gowans
Rep. John G. Mathis
Rep. Michael E. Noel
Rep. Steve Sandstrom

MEMBERS ABSENT: Sen. Mike Dmitrich
Sen. John Valentine
Sen. Margaret Dayton

STAFF: Ivan Djambov, Fiscal Analyst
Linda Service, Committee Secretary

Note: A list of visitors and a copy of handouts are filed with the committee minutes.

Sen. Stowell introduced the committee members and called the meeting to order at 2:21 p.m.

OIL, GAS AND MINING: Analyst Presentation

Ivan Djambov, Fiscal Analyst, presented the Budget Brief - Division of Oil, Gas and Mining. The Division regulates exploration for the development of Utah's oil, gas, coal and other mineral resources. When exploration and developmental activities are completed, the Division ensures that oil and gas wells are properly abandoned and mining sites are satisfactorily reclaimed. A report from the Office of the Legislative Auditor General, A Performance Audit of Utah's Coal Regulatory Program, released in December 2007, indicated the funding for the Coal and Reclamation Program can be reduced by \$235,000. The Audit also recommended the Legislature consider implementing program fees which can be used to pay for all or part of the cost of the Program. The Analyst recommended the Subcommittee make the following re-allocations of General Funds from the Coal Program and fund other Subcommittee priorities: 1) a one-time \$235,000 for FY 2008; and 2) an on-going \$235,000 for FY 2009. The Analyst further recommended the Subcommittee direct the Division to prepare and present during the 2009 Legislative Session a proposed fee schedule for the Coal Program. The Analyst discussed the Prior Year Funding Accountability document which deals with how the Division spent the money the Legislature appropriated for them to spend during the FY 2007/ FY 2008.

Agency Presentation

John Baza, Director of the Division, was assisted by Paula Dupin-Zahn, Financial Manager. The Division administers four programs which are funded individually: Coal, Oil and Gas, Minerals, and Abandoned Mines. In addition, there is an Administrative Program which provides services to the four major programs. They are funded independently from a variety of sources. Mr. Baza discussed the problems relating to costs due in part to the federal grant for the Coal Program that has remained flat in recent years with no increases proposed. Since the Coal Program only relies on General Funds at 12%, and knowing that they are somewhat in the hole in terms of funding and that they could come to the committee next year with a proposal for a fee structure, he asked for some leeway from the committee that would allow the Division to retain funding that they currently have for one more year. If there are funds at the end of this fiscal year unexpended in the Administrative Program, they would lapse those monies back. Mr. Baza responded to questions and concerns of committee members.

Mr. Baza explained a handout relating to work performed by the DWR biologist. It is difficult to evaluate the effectiveness of the arrangement with DWR but would like to see it carried for at least another year to ensure they are receiving the value for the dollars spent. A committee discussion followed.

Status of Oil and Gas in Utah

Shawn Burd and Glen Nebeker from Western Land Services reviewed their company's view of the status of gas and oil in Utah. They explained oil, gas and mining trends that are moving from 2-dimensional to 3-dimensional seismic technology which will increase drilling and exploration of wells. Other anticipated trends will be extensive leasing on national forest lands and increased uranium activity. Mr. Burd mentioned the improvements to the website which gives information on a more timely basis and the importance the biologist has been to his company. Mr. Burd and Mr. Nebeker responded to questions of the committee.

Oil Shale: Rep. Barrus

The state has a large reserve of oil shale. It is apparent that oil consumption throughout the world is rising. Global demand is growing at a rate of 2% per year, almost double the global average in 1980. At current trends, within one decade, the developing world will surpass the countries with developed economies as the major consumer of oil. OPEC nations and other nations such as Russia and Mexico are struggling to grow production right now. This group accounts for roughly 60% of the world oil production. Indications are that the production we will be able to purchase in the future will fall as much as 5,000,000 barrels per day by the end of the decade resulting in significantly high oil prices. Competition for global oil is going to rise in the future. Rep. Barrus has been interested in a number of non-traditional sources of energy such as oil sands and oil shale. Twenty-five years ago Alberta, Canada began providing ways

and incentives for innovations to energy producers and now Canada is the second largest producer of oil in the world. It is estimated that the Green River Formation in the states of Colorado, Wyoming and Utah contains 1.5 trillion barrels of recoverable oil in oil shale - .8 trillion barrels in Utah alone. To accomplish production of this oil in Utah, companies in the state would need to take the initiative to look at different types of technologies and there would need to be improvement in our infrastructure. An obstacle to this development would be the federal energy policy which does not allow us to commercialize oil shale development. A committee discussion followed.

Division of Water Resources: Analyst's Presentation

The Division of Water Resources is considered to be the water resource authority for the state, assuring the orderly planning, development and protection of Utah's water through conservation, planning and financial assistance programs. The Division's focus has been on developing new large water projects, replacing aging water facilities, population growth, and water conservation. There are no recommendations for budget increases by the Analyst in this Budget Brief. The Division's goal is to reduce per capita M&I water use by at least 25% before 2050. The Analyst reviewed the Issue Brief, Water Resources, Fees document. In an effort to correct an oversight to a statute requiring every division in the DNR to approve fees through the legislative process, a fee schedule was proposed for the services of the Division of Water Resources for FY 2009 so they will comply with the process and with the code. These are fees which they have not been charging and no changes from what they have done in the past.

Agency Presentation

Dennis Strong, Director of the Division of Water Resources, distributed a handout and discussed water conservation and the role population plays in what Water Resources does and will do. It is population that drives the water demands. Population estimates for 2050 have increased to 6,000,000. This brings a considerable water demand. Water conservation is key. The Division has a goal of a 25% water reduction per capita and is well on course to accomplish that goal. Mr. Strong gave a overview of the Bear River Water Development Act and Lake Powell Pipeline project and responded to questions raised by committee members.

Rep. Ferry moved to adjourn. The meeting was adjourned at 3:48 p.m.

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Rep. Ben Ferry, Co-Chairman

Sen. Dennis Stowell, Co-Chairman